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THE MAGAZINE FOR
GROWING COMPANIES

AUGUST 1989
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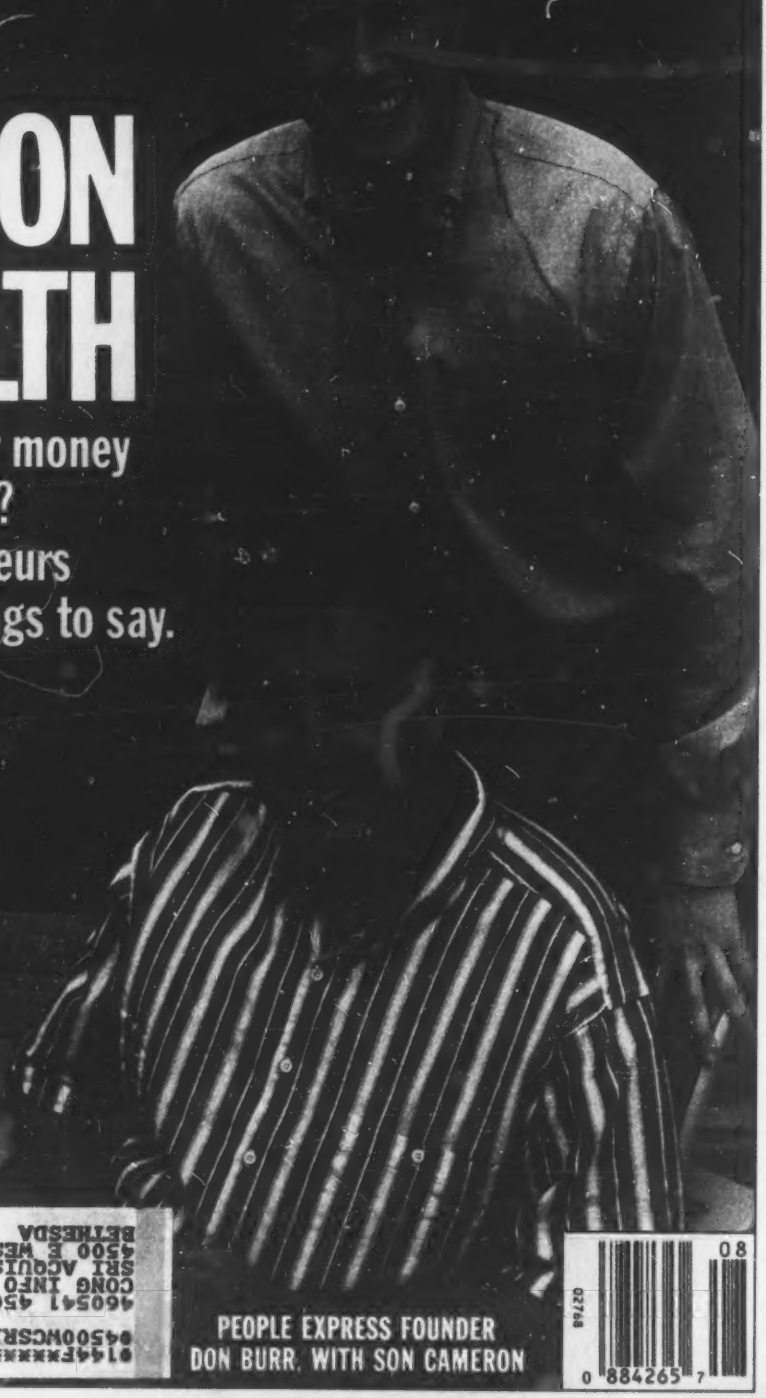
PASSING ON THE WEALTH

Should parents pass their money on to the next generation? The children of entrepreneurs have some surprising things to say.



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Locating the 'Vital Signs' of Your Business
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Taking a
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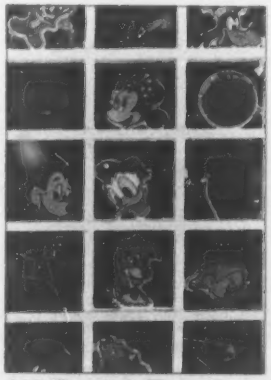

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WHERE THE GROWTH IS

You can find out about some hot businesses from government reports, but beware of statistical snares

BY JOHN CASE

I'm perusing the 1989 edition of the Commerce Department's mammoth *U.S. Industrial Outlook* when an unlikely growth industry catches my eye.

House slippers. SIC code 3142, a category that includes ordinary slippers plus "slipper socks, made from purchased socks." Shipments are projected to rise nearly 7% this year, placing the industry 14th on the list of the 15 highest-growth manufacturing businesses for 1989.

This, I decide, is news. I read on. Alas, I learn in the next paragraph that house slippers were among the big losers of the past five years. At best they're now only making a comeback. Oh, well. I check out some of 1989's other projected fast growers, such as "fertilizers, mixing only" (#5 on the list). No dice. Here's an industry that hit its peak in 1977, declined, then grew a percent or so a year for the past half decade. It's probably not a great place to look for fast-growing companies either.

My purpose here is simple enough: to see what the U.S. government's vast output of economic data can tell me about where to find growing markets. Today's business landscape is changing rapidly, after all, and I'm curious to know exactly which industries are expanding and which are declining.

Growth-minded company owners, marketers, and prospective entrepreneurs will be interested too, I figure, particularly if we can learn something we don't already know. (We don't need the Commerce Department to tell us the software business is bigger than it used to be.) As it happens, I discover several surprises in my quest—industries that won't make the headlines anytime soon but that are nonetheless growing rapidly and consistently. Let me caution you, however: like any raw data source, government figures can snare the unwary.

Snare #1 is what tricked me into thinking that house slippers might be an up-and-coming business, namely, the tendency to confuse cyclical recovery with long-term expansion. The fastest-growing manufacturing business for 1989, according to the Commerce Department, is—are you ready?—metal-cutting machine tools. Since this industry shows a five-year compound annual growth rate of –2.9%, 1989's projected expansion is most likely just a rebound. Still, don't be too quick to write off all such industries. Metal-*forming* machine tools (such as presses) show an estimated 1989 growth rate of 10% and a five-year annual rate of 8.6%. Why the difference? In recent years, explains Commerce's Patrick W. McGibbon, Detroit has retooled for a bevy of new models, buying a lot of new presses. In 1988 alone metal-forming tool shipments jumped more than 20%.

Snare #2 is assuming the government counts what should be counted rather than what's easiest to count. On page 17, the *Outlook* informs us that service-producing industries "dominate the U.S. economy in terms of both employment and output." But service growth is hard to gauge accurately, particularly because the relevant unit of measurement can vary from one industry to another. So Commerce devotes fully four-fifths of the book's detailed analyses to good ol' resource-extraction and manufacturing businesses, all of which crank out easily countable products. We learn plenty about cleaning preparations and cosmetics and virtually nothing about advertising and accounting.

As a result, you have to look hard for unsung service-industry growth. If you do,

HOT MARKETS

The Commerce Department's pick of the fastest-growing businesses in America

In keeping with its emphasis on goods production, the Commerce Department's *1989 U.S. Industrial Outlook* lists five-year growth leaders and this year's projected leaders for manufacturing businesses (tables A and B). Where services are concerned, all we get is 1989 projected growth rates, and then only for "selected" service industries (table C).

TABLE A

Fastest-growing manufacturing industries, 1984–1989

Industry	Compound annual growth rate (sales)
Semiconductor devices	22.6%
Missiles/space vehicles	14.1
Particleboard	11.0
Paper industries machinery	10.7
Miscellaneous publishing	9.5
Wines & brandy	9.2
Surgical & medical instruments	9.1
Aircraft engines & engine parts	8.9
Engineering & scientific instruments	8.9
Metal-forming machine tools	8.6
Radio & television receiving sets	8.3
Optical instruments & lenses	7.8
Measuring & controlling devices, n.e.c.*	7.7

*not elsewhere classified

TABLE B

Fastest-growing manufacturing industries (projected), 1989

Industry	Projected growth rate (sales)
Metal-cutting machine tools	13.9%
Semiconductor devices	13.4
Paper industries machinery	13.0
Wines & brandy	10.5
Fertilizers, mixing only	10.0
Metal-forming machine tools	10.0
Surgical & medical instruments	9.0
Surgical appliances	9.0
Surface active agents (surfactants)	8.1
Optical devices & lenses	8.0
Instruments, n.e.c.*	7.0
Men's footwear	7.0
Polishes & sanitation goods	

TABLE C

1989 forecast growth rates, selected service industries

Industry (Unit of measure)	Growth rate
Space commercialization (revenues)	50.0%
Computer software (receipts)	24.0
Electronic databases (revenues)	20.0
Computer professional svcs. (revenues)	15.5
Prerecorded music (mfrs. value)	15.0
Operations/maint.: security (expend.)	15.0
Airlines (revenues)	14.5
Data processing (revenues)	13.0
Equipment leasing (equip. cost added)	12.0
Operations/maint.: airlines (expend.)	11.5
Health services (expend.)	10.7
Telephone & telegraph (oper. revenues)	8.0
Hotels & motels (receipts)	8.0

Source: *1989 U.S. Industrial Outlook*

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THE NEW ECONOMY

however, you'll discover a few nuggets—such as a short chapter right at the end on operations-and-maintenance services in fields as diverse as waste treatment, highways, and buildings. All these businesses have shown steady growth in the past several years, with airline O&M expenditures rising by more than 10% a year.

Snare #3 is a time-honored statistical illusion: comparing percentage growth from different starting points. The third fastest-growing manufacturing business over the past five years, says the *Outlook*, is the particleboard industry. But before you run out to join up, notice that the whole shebang amounted to only $1.4 billion last year. If it were a company, it wouldn't make even the top half of the *Fortune* 500. The surprising 9% yearly growth in engineering and scientific instruments, by contrast, came off an initial base nearly four times as large.

Of course, government research volumes like the *Outlook* are most helpful if you know what you're looking for. Not long ago, for example, I read an informative study of Milwaukee's economy assembled by Sammis B. White and his colleagues at the University of Wisconsin (Milwaukee), and I noticed that "miscellaneous plastics products" was one of the fastest-growing manufacturing industries in the region. Later I happened to see that the Small Business Administration listed the industry among the top-10 small-company job generators for 1988.

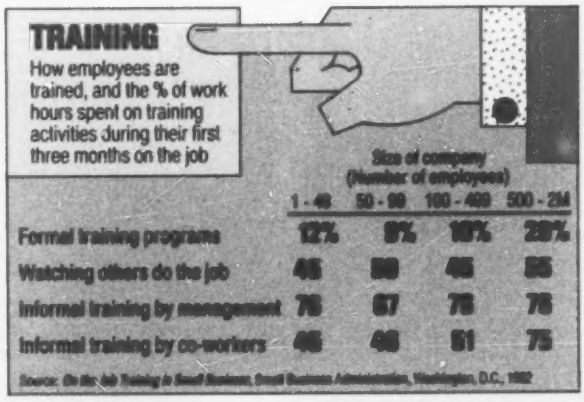
Consulting the *Outlook*, I learned a good deal more. Miscellaneous plastics products (including everything from photographic film to trash cans) is a huge industry, accounting for more than $60 billion in revenues in 1988 and—with 600,000 workers—ranking as one of the biggest employers in the United States. It has been growing steadily at roughly 5% a year after inflation. And it's a quintessential small-company business, with 10,000 companies operating some 12,000 establishments. The prospects for this year are pretty good—5.3% growth—and over the long haul may be even better, as new plastic composites create new product possibilities. Imports are growing but they're still a small fraction of the total market.

Right there, of course, is exactly what a marketer or company owner might want to know about an interesting and largely unheralded industry—one, moreover, that's more important to the nation's economic health than house slippers. But because it doesn't make any top-10 or top-15 listings I wouldn't have found it if I hadn't been looking.

I can't help wondering what else is buried, undiscovered, in the government's statistics about our changing economy. □

HANDS ON

A Manager's Notebook



MARKETING

TAKING ORDERS

You labor long and hard to find customers, and what happens when they call up to give you an order? All the salespeople are at lunch or handling other calls or otherwise occupied. What do you do?

Gus Blythe, president of SecondWind Co., which sells athletic-shoe-care products, has the answer: turn every employee into a potential order taker.

Blythe has order forms hanging from each desk in his Paso Robles, Calif., company. "That way, when the phone rings, we have no excuse not to take an order," he explains. "The forms are self-explanatory, and every employee, including me, is capable of filling them out. There's nothing worse than making a customer wait to give you money." □

RESOURCES

COMPUTER SMARTS

To get the most out of your computer without making it your life's work, consider joining a computer users group. Generally, the larger the group, the more services it offers. These may include:

□ Meetings with prominent software designers to answer questions

□ A hot line for trouble-shooting software programs

□ Discounts on hardware and software purchases

□ Classes for both the novice and power user

□ A library of software, hardware, and books

□ A newsletter giving the lowdown on the newest programs.

Computer-store employees usually know how to get in touch with local groups, and newspapers often list users group meetings in their calendar sections. Membership rates in these nonprofit organizations vary, but $35 is typical.

Groups with a national following include The Boston Computer Society, (617) 367-8080; the Capital PC User Group, in Rockville, Md., (301) 762-6775; and BMUG Inc. (Berkeley Macintosh Users' Group), (415) 549-2684. □

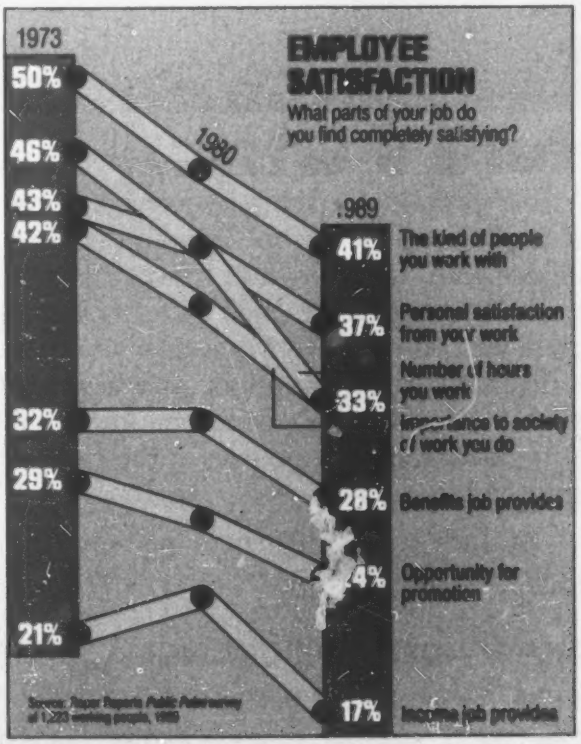
SOCIAL RESPONSIBILITY

MUSIC TO THEIR EARS

Leib Ostrow, CEO of Music for Little People, in Redway, Calif., says he has found a way to increase sales, get favorable publicity, and attract dedicated and like-minded employees. Ostrow promotes nonprofit organizations "that provide help to the planet" in his mail-order catalog of cassettes, videotapes, and musical instruments for children.

Customer feedback has been "100-to-1 in favor," Ostrow says. And for at least 3 of the 12 nonprofit groups spotlighted over the past three years, the catalog has been the single most important source of new members.

"These causes are struggling to get started, just like growing businesses. They've had funding cut, and it's up to entrepreneurs to support them," says Ostrow, whose revenues topped $2 million in 1988. □



MANAGING PEOPLE

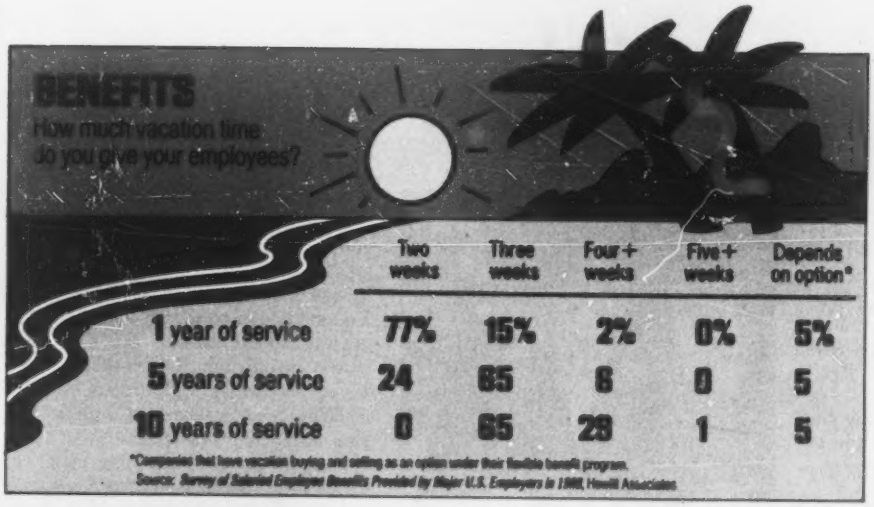
FAMILY TIES

In busy times, it's standard practice to ask employees to work overtime and pay them for it. But Rick Johnson, founder and CEO of BurJon Steel Service Center Inc., in Springboro, Ohio, feels that when the company requires a great deal of overtime for long stretches, money alone isn't enough. On the theory that families and friends suffer when people spend that much time at work, he augments overtime pay with flowers and coupons for dinner at a local restaurant.

Usually Johnson sends the flowers and dinner coupons directly to the employee's spouse or to a friend, along with a personal note. "When somebody works hard, it's hard on everyone," he says. "We think it's important to say thanks." And it doesn't hurt morale either. □

CHARTS: CYNTHIA DAVIS

HANDS ON



EXECUTIVE EDUCATION

FINDING THE RIGHT SEMINAR

Forget business seminars. For better information in your area of interest, go to the sessions where experts inform the professionals in the field. They aren't trying to sell anything, the presentation is more sophisticated, and you make great contacts in the bargain.

Cecil Ursprung, president and CEO of Reflexite Corp., in New Britain, Conn., wanted information on employee stock-ownership plans. So he attended a seminar designed for accountants and lawyers who administer ESOPs. "We went to hear the experts whom professionals rely upon," he says. "The information was presented in an unbiased manner, and they discussed the positives and negatives. We were much better prepared to evaluate our own lawyer's and accountant's advice." And when Reflexite's board voted to set up an ESOP, Ursprung had in hand a list of the best lawyers and accountants to hire for the transition. □

ENVIRONMENT

SEND THEM PACKING

When environmentally concerned customers object to your company's practices, change your ways, says Daniel Smith, owner of Daniel Smith Inc., a mail-order art-supply business in Seattle. Smith had been using high-quality Styrofoam peanuts to pack his wares because the damage rate was so low. When customers began to complain about the effect the material would have on the environment, however, he looked around for alternatives. "Finally," he says, "in January I risked it and changed over to recycled paper. And it's worked out fine."

Damage rates have remained negligible, and the net costs are about the same. Smith even garnered some goodwill by notifying his complaining customers of the switch. □

CAPITAL

CHARACTER LOANS

For start-ups, it's a classic catch-22 situation. You can't get a loan without a track record, and you can't get a track record without a loan. Richard Aman, CEO of ProKnit Corp., in Scottsdale, Ariz., found a way out. He built his credit record before building his business.

Although ProKnit wasn't incorporated until 1984, Aman began filling out personal-loan applications in 1980. His first loan was for $4,000 or $5,000, unsecured and payable in 90 days. "I said to my banker, 'When I come back and ask for a big loan to start my business, I expect you to be there for me,' and he was," Aman says. Over the next five years Aman paid off more than 10 loans, escalating the stakes to a $100,000 one-year unsecured note, needed to fill his first big order when he started ProKnit. The apparel-manufacturing business has grown from $331,000 in sales in 1985 to more than $14 million in 1988. □

CUSTOMER SERVICE

ALUMNI NETWORK

A customer wants something you don't offer. What do you do? Thomas Moser, owner of Thos. Moser Cabinetmakers Inc., a $5.5-million furniture manufacturer in Portland, Maine, hates sending people away empty-handed. So he refers them to someone he thinks can handle the job—often a former employee.

Over the years Moser has seen a number of his woodworkers go into business for themselves, producing specialized items that his shop doesn't make. Helping them out helps his business as well. "Our feeling," Moser says, "is that it makes us more valuable. When customers feel cared for, they come back." □

SELLING

BUSINESS-TO-BUSINESS CALLS

If you sell business to business, an 800 number for customers may be a waste of money, says Stephen J. Carline, customer-service manager for CareerTrack Inc., a $55-million training seminar and workshop company based in Boulder, Colo.

"We've tested the 800 number nine ways to Sunday, and it doesn't seem to add any business, or if it does, it doesn't justify the cost," Carline says. Why? People phoning in orders—like most business-to-business customers—just don't consider the price of the call. "Their company is paying, they're not," says Carline, who estimates that CareerTrack saves $150,000 a year by not having a toll-free number. □

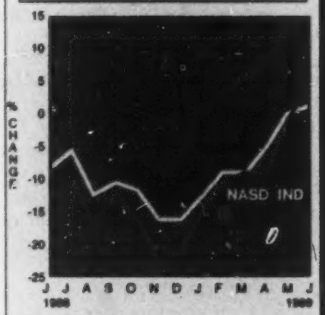
Reported by Paul B. Brown, Bruce G. Posner, and Teri Lammers

INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES

All averages start at 0 in October 1987.

INC. vs. SPECULATIVE AVERAGES



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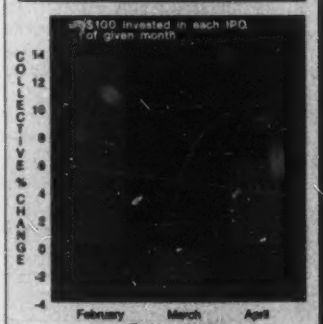
IPOs IN THE AFTERMARKET



INITIAL PUBLIC OFFERINGS: MAY 1989

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
AFAXU	Amerifax	Provides facsimile-transmission svcs.	3.60	5.00[c]	5	D. H. Blair
BLAI	Bernstein/ Lelbstone Associates	Mkts. & distr. packaging & textiles	3.34	2.75	3⅛	Werthel-Roth
BPT[a]	BP Prudhoe Bay Royalty Trust	Oil holding co. for BP Prudhoe Bay	182.00	26.00	26¼	Goldman Sachs
CS[a]	Cabletron Systems	Sets up local area network svcs.	68.20	15.50	16⅛	Goldman Sachs
CHEM	Chempower	Provides asbestos-abatement & insulation svcs.	27.30	13.00	13½	Alex. Brown
CXH[a]	Colonial Investment Grade Municipal Trust	Municipal trust	120.00	12.00	12	Paine Webber
CMPX	Comptronix	Provides contract mfr. svcs.	10.00	5.00	5½	Robinson-Humphrey
CSIM	Consilium	Supplies management software	13.95	9.00	10¼	Hambrecht Quist
CSLR	Consuller Industries	Provides automobile R&D	1.00	10.00[d]	11½	G. K. Scott
DOCUU	DocuCon	Processes documents	3.20	4.00[e]	4	D. H. Blair
DFII	Duty Free International	Operates duty-free shops	25.60	20.50	24½	Robertson Coleman
GOAL	Goal Systems International	Dvlps. & mkts. software	23.40	9.75	9⅛	Morgan Stanley
MCX[b]	MC Shipping	Owns & operates cargo ships	33.75	15.00	14⅛	Salomon Bros.
VLC[b]	Nortankers	Oil transport & tanker acquisition co.	79.20	15.00	14¼	Smith Barney
PYM[a]	Putnam High Yield Municipal Trust	Closed-end fund	185.00	10.00	10	Prudential Bache
RBNS.U	Regent Bancshares	Bank holding co.	4.80	10.00	9⅛	Hopper Soliday
REP[a]	Repsol, S.A.	Integrated petroleum co.	157.85	14.35	17⅛	Goldman Sachs
ROC[a]	(R.O.C.) Taiwan Fund	Fund for Taiwan investments	59.84	14.55	14½	First Boston
SNRSU	Sunrise Technologies	Provides laser-technology research	2.50	5.00[f]	5⅛	Thomas James
TBINU	Transgenic Sciences	Dvlps. pharmaceuticals	3.20	4.00[g]	4	D. H. Blair
UTOG	Unilog	Provides uniform-rental svcs.	19.60	12.25	14⅛	G. K. Baum
UNTY	Unity Healthcare Holding Co.	Provides health-care personnel	4.05	3.00	4¼	Paragon Capital
VISXU	VISX	Provides laser-surgery research	4.00	5.00	5⅛	Jonathan Alan
WLD	Wildey	Mfrs. firearms	3.50	5.00	5¼	Rosenkrantz
XSCXU	Xsirius Superconductivity	Dvlps. applications for super-conductivity	6.00	6.00[h]	10	D. H. Blair

Initial public offerings sold at $1 or less not included. First aftermarket bid is approximate. [a] trading on the NYSE· [b] trading on the AMEX; [c] units of 5 common + 5 warrants; [d] units of 40 common + 10 warrants; [e] units of 4 common + 4 warrants; [f] units of 5 common + 1 warrant; [g] units of 3 common + 2 warrants; [h] units of 3 common + 3 warrants. Offering data source: *GOING PUBLIC: THE IPO REPORTER*, a publication of The Dealer's Digest Inc., 150 Broadway, New York NY 10038

CHARTS: IMAGEBUILDER DESIGN

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